## Two lessons guaranteed to work for Big Three

By John Logue

Published on Thursday, Dec 11, 2008 http://www.ohio.com/editorial/commentary/35947654.html

If you were following the auto industry in 1979, you should have a sense of deja vu about the current auto-loan debate in Congress.

Then, like now, there was a crisis. Chrysler was about to go into bankruptcy, with the resulting direct loss of jobs and subsequent bankruptcies and loss of jobs cascading down among its suppliers and then among their suppliers. It was company-specific — not general to the industry — but represented a real threat to employment. More than 8,000 Ohio jobs at Chrysler alone were at stake.

The Chrysler Loan Guarantee Act that the Congress passed and President Jimmy Carter signed provided federal guarantees for loans of \$1.2 billion. Together with aid from individual states, Canadian provinces, the Canadian federal government and concessions from workers, creditors and suppliers, the federal guarantee gave Chrysler the breathing room to turn around and bring new products to market.

Chrysler became a standout business success story of the 1980s. Lee lacocca, Chrysler's chief executive officer, became a business icon.

The Chrysler Loan Guarantee Act had other things in it than just concessions and government money.

The federal government had warrants to purchase stock to give it part of the upside if Chrysler came back financially, which it did. The federal government actually made money on the loan guarantee.

It also had a \$162.5 million employee stock ownership plan for Chrysler employees to share the upside in stock price with them (if there was any) in return for their concessions. Initially, they didn't think it would be worth anything, but as Chrysler began to turn around, it became a powerful motivator. Chrysler workers got about \$8,200 each when the 16 percent ESOP was cashed out later in the 1980s.

"The free-enterprise crowd went nuts" over employee ownership of some stock, lacocca later wrote in his 1984 autobiography. "They think that this represents the first step to socialism. But I don't see anything wrong with the workers owning a piece of the action. It certainly doesn't interfere with good management."

Chrysler also put Doug Fraser, then-president of the United Auto Workers, on its board of directors. That certainly violated the first rule of American corporate governance practice: Pack your board with managers, golfing buddies and former CEOs of other companies who will always vote to raise your salary — but often know little about your company or industry.

By contrast, Fraser provided an articulate voice for workers on the Chrysler board and broadened the input that the company got. He knew as much or more about the industry and the company than anyone else on the board, and he added a perspective on how to improve productivity and quality that no one else on the board had.

Most important, putting Fraser on the board was a symbol that this was going to be a different company. And to survive, it needed to be a different company.

Thirty years later, there are two lessons from the 1979 Chrysler loan guarantee that we ought to learn.

The first is that a financial upside for workers in return for their concessions makes a lot of sense. After all, they are the people who make the cars. They've taken quite a beating in the last contract and will take a further beating to keep the Big Three alive now. Their involvement in the

turnaround *does* make a difference today — just as it did at Chrysler. They should get a share of ownership.

While there's no guarantee that the Big Three will turn around, success is more likely if workers share the upside. They are certainly sharing the downside.

The second lesson is that having directors on the board who represent workers is a good thing. We need that perspective on the boards of all three companies today.

We should note that most of the Big Three's European competitors *already* have union representation on their boards of directors. Fully half the members of the supervisory boards of the German automakers (including General Motors' subsidiary Opel) represent the workers.

And while we are thinking about having genuine outside perspectives on the board, what about adding a member or two to represent the public stakeholders and our interest in a viable auto industry in the future?

And having an environmentalist or two would help to ensure that cheap gas and the SUV-truck fetish of the current auto company management and boards doesn't land us right back in the same position a couple of years down the road.

Especially in the corporate boardroom, diverse opinions have proved profitable.

If you were following the auto industry in 1979, you should have a sense of deja vu about the current auto-loan debate in Congress.

Then, like now, there was a crisis. Chrysler was about to go into bankruptcy, with the resulting direct loss of jobs and subsequent bankruptcies and loss of jobs cascading down among its suppliers and then among their suppliers. It was company-specific — not general to the industry — but represented a real threat to employment. More than 8,000 Ohio jobs at Chrysler alone were at stake.

The Chrysler Loan Guarantee Act that the Congress passed and President Jimmy Carter signed provided federal guarantees for loans of \$1.2 billion. Together with aid from individual states, Canadian provinces, the Canadian federal government and concessions from workers, creditors and suppliers, the federal guarantee gave Chrysler the breathing room to turn around and bring new products to market.

Chrysler became a standout business success story of the 1980s. Lee lacocca, Chrysler's chief executive officer, became a business icon.

The Chrysler Loan Guarantee Act had other things in it than just concessions and government money.

The federal government had warrants to purchase stock to give it part of the upside if Chrysler came back financially, which it did. The federal government actually made money on the loan guarantee.

It also had a \$162.5 million employee stock ownership plan for Chrysler employees to share the upside in stock price with them (if there was any) in return for their concessions. Initially, they didn't think it would be worth anything, but as Chrysler began to turn around, it became a powerful motivator. Chrysler workers got about \$8,200 each when the 16 percent ESOP was cashed out later in the 1980s.

"The free-enterprise crowd went nuts" over employee ownership of some stock, lacocca later wrote in his 1984 autobiography. "They think that this represents the first step to socialism. But I don't see anything wrong with the workers owning a piece of the action. It certainly doesn't interfere with good management."

Chrysler also put Doug Fraser, then-president of the United Auto Workers, on its board of directors. That certainly violated the first rule of American corporate governance practice: Pack your board with managers, golfing buddies and former CEOs of other companies who will always vote to raise your salary — but often know little about your company or industry.

By contrast, Fraser provided an articulate voice for workers on the Chrysler board and broadened the input that the company got. He knew as much or more about the industry and the company than anyone else on the board, and he added a perspective on how to improve productivity and quality that no one else on the board had.

Most important, putting Fraser on the board was a symbol that this was going to be a different company. And to survive, it needed to be a different company.

Thirty years later, there are two lessons from the 1979 Chrysler loan guarantee that we ought to learn.

The first is that a financial upside for workers in return for their concessions makes a lot of sense. After all, they are the people who make the cars. They've taken quite a beating in the last contract and will take a further beating to keep the Big Three alive now. Their involvement in the turnaround *does* make a difference today — just as it did at Chrysler. They should get a share of ownership.

While there's no guarantee that the Big Three will turn around, success is more likely if workers share the upside. They are certainly sharing the downside.

The second lesson is that having directors on the board who represent workers is a good thing. We need that perspective on the boards of all three companies today.

We should note that most of the Big Three's European competitors *already* have union representation on their boards of directors. Fully half the members of the supervisory boards of the German automakers (including General Motors' subsidiary Opel) represent the workers.

And while we are thinking about having genuine outside perspectives on the board, what about adding a member or two to represent the public stakeholders and our interest in a viable auto industry in the future?

And having an environmentalist or two would help to ensure that cheap gas and the SUV-truck fetish of the current auto company management and boards doesn't land us right back in the same position a couple of years down the road.

Especially in the corporate boardroom, diverse opinions have proved profitable.

Logue is director of the Ohio Employee Ownership Center and professor of political science at Kent State University.